S&P Global Ratings

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Summary:

Metropolitan St. Louis Sewer District, Missouri; Water/Sewer

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Summary:

Metropolitan St. Louis Sewer District, Missouri; Water/Sewer

Credit Profile		
US$150.0 mil wastwater sys imp and rfdg rev bnds ser 2016C due 05/01/2038		
Long Term Rating	AAA/Stable	New
Metro St Louis Swr Dist wastewtr sys rev bnds		
Long Term Rating	AAA/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
Metro St Louis Swr Dist wastewtr		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its AAA' long-term rating to Metropolitan St. Louis Sewer District (MSD, or the district), Mo.'s 2016C wastewater system improvement and refunding revenue bonds and affirmed its 'AAA' rating on MSD's outstanding bonds. The rating reflects, in our opinion, the combination of extremely strong enterprise and financial risk profiles. The outlook is stable.

The enterprise risk profile reflects our view of the system's:

- Service area participation in the broad and diverse St. Louis metropolitan statistical area (MSA) economy;
- Very low industry risk as a monopolistic service provider of an essential public utility;
- Affordable rates when benchmarked against both income levels and the poverty rate in St. Louis County, which for all intents and purposes overlaps with most of MSD's service base; and
- Strong operational management practices and policies in our view.

The financial risk profile reflects our view of the system's:

- Financial performance that routinely exceeds bond covenant minimums for debt service coverage (DSC);
- A large amount of unrestricted cash and investments on hand that has represented no less than 400 days of operating expenses since at least 2010; and
- Strong financial management practices and policies, in our view.

MSD has a predominantly locally derived revenue base. Local service charges, derived through an autonomous rate-setting process, represent virtually all of the entity's revenues. This, coupled with operating expense flexibility, limits exposure to federal revenues.

MSD's net wastewater operating revenues (excluding property tax revenues and stormwater service charges) secure the bonds. Bond proceeds will finance various improvements, as part of the district's long-term planning in addressing needs, mostly related to the consent decree, and refund certain outstanding bonds for economic savings. These bonds have the same parity pledge of net revenues as with the district's other revenue debt outstanding, other than its subordinate state revolving fund debt.

MSD provides wastewater treatment and stormwater management to the city of St. Louis and most of St. Louis County. The customer base is large (approximately 425,000 accounts), stable, and diversified. Accounts in the county make up 80% of the total. The largest user, InBev (Anheuser-Busch InBev N.V./S.A.), in St. Louis, accounted for only 1.8% of wastewater user charges in fiscal 2016. The next nine-largest users made up another 3.6%.

Enterprise and financial risk profile characteristics

The district has entered into a consent decree with the U.S. Environmental Protection Agency to address $4.7 billion (2010 dollars) of needs over a 23-year period. This incorporates addressing various projects as part of its combined sewer overflow (CSO) long-term control plan and sanitary sewer overflow (SSO) projects as well. The consent decree, in the district's view, aligns with plans already initiated by the district. The $1.7 billion earmarked in the 2016-2020 capital improvement and replacement program (CIRP) addresses some of these needs. Management has indicted that it expects to fund these projects from a mix of debt and cash on hand.

We consider the rates affordable. For fiscal 2017, the monthly average residential rate as reported by management for 700 cubic feet of use is $44.59. When benchmarked against St. Louis County's median household effective buying income of 106% and 9.6% poverty rate, we consider these rates affordable. The district has already adopted a multiyear rate increase that extends through the end of the 2020 fiscal year.

Historical financial performance, as measured by both DSC and liquidity, has remained strong. Over the past five fiscal years (from 2012-2016) net pledged revenues, which essentially is a standard net revenue calculation less unpledged property taxes, have covered annual total debt service costs by no less than 1.7x, but it was higher at about 1.8x at the fiscal year ended June 30, 2016. During those same five years, unrestricted current cash and investments have represented no less than 400 days' cash, and were about 720 days in 2016. Our analysis of MSD's projections indicates that strong financial performance is likely to continue.

Supporting the enterprise and financial risk profiles are a wide array of management policies, including strategic, long-term capital, and pro forma financial planning.

Outlook

The stable outlook reflects S&P Global's expectation that MSD will adjust rates and expenses as necessary to maintain financial performance consistent with historical trends.

Downside scenario

While unlikely during the current two-year outlook period, we could lower the rating if the district can't produce financial metrics that we believe are consistent with the rating level, particularly as MSD continues to fund its large capital plan.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.